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## “THE BIG THREE,” 1905-1912

BY SYDNEY BROOKS

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As an English policy-holder in the Mutual Life of New York, as well as in a British company of equal standing, I was interested in the storm that seven years ago burst upon the world of American life insurance. It had by no means abated when early in 1906 I chanced to find myself in New York. I could not, indeed, have timed my visit more happily had I crossed the Atlantic for the express purpose of witnessing the American public in one of its periodical fits of morality. “A Frenchman or an Englishman,” says Mr. Dooley, “cleans house be sprinklin’ th’ walls with cologne; we Americans chop a hole in th’ flure an’ pour in a kag iv chloride iv lime.” New York in the early months of 1906 reeked of chloride of lime. Largely, it may be remembered, as the result of a strife of factions and personalities among the directors of the Equitable, the New York State Legislature appointed a committee to investigate the affairs of all the New York insurance companies, and especially of the “Big Three”—the Mutual, the Equitable, and the Life. These three organizations had at that time (in round figures) 2,150,000 policy-holders, their admitted assets amounted to \$1,250,000,000, their outstanding insurances to \$4,975,000,000, their premium incomes to over \$205,000,000, and their combined surpluses to nearly \$200,000,000. Their size and power and wealth, the immensity of the interests committed to their care, and the fact that all three companies had expanded beyond the limits of the United States and were doing a considerable business in England and throughout Europe, combined to rivet a world-wide interest on the abuses that were brought to light.

This interest was, naturally, greatest in New York, and it was in New York also that it assumed its most unreasoning and hysterical forms. For weeks and months the yellow

press battered on the evidence that was laid before the committee, magnified and distorted every irregularity, hinted at a hundred others for which no corroboration could be found, and succeeded in working both the public and the Legislature up into a state of sheer panic. That many and undoubted shortcomings were disclosed in the working of these vast institutions is as true as that they were adjudged guilty of innumerable crimes they had never committed. Nothing, indeed, could have been more recklessly devastating than the way in which the press and the Legislature turned every insurance company upside down in their search for “graft.” Transactions that were not only perfectly regular and legitimate, but were seen to be so by every business man of common sense, became transformed in the imagination of sensational reporters into sinister swindlers; to be an official in any life-insurance company was to be a suspected person; the great services which the “Big Three” had rendered to the community were forgotten; even their solvency was only grudgingly admitted; all sense of proportion and fair play appeared to have departed from the investigators and their allies in the press; and the New York State Legislature proceeded with astounding rapidity and an almost total absence of reflection to enact a series of laws that revolutionized nearly every detail of the life-insurance business. Some of these laws have undoubtedly done good, and no one to-day, whether a policy-holder or a director in the “Big Three,” would dream of repealing them in bulk. Others, however, were far too drastic, were conceived in a spirit of suspicion and vindictiveness, have brought forth little but confusion and harm, and, like most laws passed in a panic, have even militated here and there against the very interests they set out to protect.

I have said that some unquestionable abuses were laid bare in the management of the New York companies. Grossly exaggerated and misunderstood as they were, the defects disclosed were none the less real and serious. An excessive concentration of power in the hands of one or two men was, in my belief, at the root of them. Seven years ago each of the “Big Three” was under the direction of a virtually unchallenged autocracy. This meant in practice that both the policy-holders and the boards of trustees and the subsidiary committees were kept far too much in the dark as

to the administration of their companies; that extravagance and nepotism found a fruitful soil; that the salaries of the executive offices had risen to an unwarrantable height; and that the personal, political, and financial affiliations of one or two individuals, and the effects produced in them by the long possession of unrestrained power, implicated the entire company and the interests of thousands upon thousands of policy-holders. Any one who to-day calmly re-reads the evidence given before the Armstrong Committee will, I think, agree that the main source of the malpractices revealed was the system that permitted the presidents of the great insurance companies to become little less than despots. A certain ethical laxity or confusion, a dimming of the fiduciary sense, and the formation of entangling alliances with politics and with Wall Street were the all but inevitable results of the faulty conditions that made each president a petty Tsar and insensibly encouraged him to believe that the company was—himself. But apart from this not a few shortcomings were brought to light that were rather technical than personal. Thus it was pretty clearly established that both the annual and deferred dividends payable to policy-holders had seriously diminished, that the mania for size had entailed the expenditure of disproportionate sums on obtaining new business, and that the whole system of deferred dividend policies, with its inevitable accumulation of vast sums for long periods without account, encouraged extravagance and had proved, in spite of its popularity, a disappointing form of insurance from the standpoint of the policy-holder.

It was eminently right that these defects should be exposed and remedied, even if the exposure involved a needless convulsion and even though some of the remedies suggested were planned on far too exacting a scale. The shock administered to the "Big Three" would have overwhelmed any institutions less securely founded or less ably built up; it staggered them even as it was; but it has turned out, on the whole, a salutary experience. For one thing, the investigation brought into clear relief the magnitude of the social service rendered to the American people by the "Big Three" in spreading the gospel and practice of life insurance over an unprecedented area and with unprecedented effectiveness. For another, it proved up to the hilt that, in spite of admitted irregularities, the solvency of each and

all of the companies was beyond the possibility of being questioned, and that the actual losses sustained by the individual policy-holder through wasteful administrative methods, excessive salaries, and so on were so infinitesimal as to be negligible. For a third, the investigation showed that each of the “Big Three” had been conducted with a financial success in the matter of investments that argued managerial ability of the very first order. Moreover, the aftermath of the turmoil of seven years ago has proved equally advantageous to the moral as well as the material health of the companies. It is not too much to say that every specific shortcoming then revealed has been remedied and that every practice which the Legislature condemned has been abandoned. The “Big Three,” as a matter of fact, did not wait for the Legislature to speak before proceeding to set their houses in order. At the very outset of the disclosures each company appointed an investigating committee of its own that made an exhaustive and unflinching inquiry into all departments; the officials responsible for the slackness and malpractices of the past were got rid of, boards of trustees were reorganized, great savings were immediately effected, and a spirit of economy and reform which has never slackened for a moment in the intervening seven years quickly made itself felt. The ambition to be big at any cost has been wisely foregone, and each company instead has devoted itself to furnishing the soundest insurance at the lowest price, with the result that each of the past six years has shown in the case of the Mutual, the Life, and the Equitable, a progressively increasing bonus. The administrative machinery of all three offices, again, has been thoroughly overhauled, and it is now impossible for any man to reach the position of autocratic irresponsibility occupied by the presidents of the old régime, or to fix salaries or order payments to be made without the full knowledge and sanction of the proper committees. Apart, therefore, altogether from legislative compulsion, the three leading life-insurance companies of the United States have striven earnestly and successfully to effect their own redemption.

That the laws passed by the New York State Legislature in 1906 have assisted this process of reformation cannot be doubted. I do not profess to be able to discuss them as an expert, but in my capacity as an average interested policy-holder in one of the “Big Three,” and after plow-

ing through most of the available material, I have reached certain rough-and-ready conclusions which I venture to submit as, at all events, fitting subjects for debate. The Legislature, then, in my judgment, did well, on the whole, though not without risk to that very important and beneficent branch of insurance which concerns itself with impaired and sub-standard lives, in forbidding the further issue of deferred-dividend and non-participating policies. It did well, again, in prohibiting investments in, and loans secured upon the collateral of, ordinary industrial shares; in making syndicate participations and transactions on joint account illegal; in forbidding contributions for political purposes, and in requiring a complete registration of all lobbyists and agents employed by the companies, together with an itemized account of their expenses and services; in compelling an annual distribution of dividends; and in establishing a criterion for reasonable and profitable expenditure on new business. On the other hand, the fact that the laws have already had to be amended some twenty times bears witness to the precipitate and Draconian spirit in which they were enacted. The Legislature, as it seems to me, was ill advised when it set a limit on the amount of insurance that might be written in a given year—a provision since modified by amendment; when it interfered with the legitimate discretion of the companies' officers by laying down not only how much they might spend on procuring new business, but how they should spend it; when it ordered all life-insurance companies to dispose of their holdings in stocks by December 31, 1911—an injunction that was extended last autumn just in time to avert a difficult financial and legal crisis; when it forbade the companies to grant pensions to their employees; when it limited the amount of the contingency reserve that a company might hold to from twenty to five per cent. of its policy liabilities—the largest company being restricted to the perilously narrow margin of five per cent.; when it issued a "standard form" of policy which must necessarily, in such a progressive business as life insurance, prove hampering and illiberal in its operation; and when it devised a scheme of voting by policy-holders for the election of trustees and directors which may fairly be said to have proved an expensive and unworkable farce.

One benefit, however, was conferred by the legislation of 1906 which offers no target for criticism, the benefit of an

unsparing and microscopic publicity. The workings of the “ Big Three ” are now conducted in a positive blaze of light. Not only are they liable at any moment to be called upon to throw open all their books and accounts to the inspection of the State Superintendent of Insurance, but the annual reports required from them furnish a vast number of particulars that the Board of Trade never demands from any English company. I am, as I have said, insured both in an American and a British company. I have implicit confidence in each, but I find I can only learn about a tenth as much of the affairs of the British concern as I can of the American. In the annual statement which the New York companies are bound to supply to the State Superintendent, and in the various schedules attached to it, more information is contained than is obtainable, perhaps, in regard to any other life-insurance companies in the world. Besides an exhaustive balance-sheet and gain-and-loss exhibit, every piece of real estate owned by each company is set forth in detail, together with the date of its purchase, the name of the vender, the actual cost, the book value, the market value, the increase or decrease by adjustment during the year, and the gross and net income, taxes, repairs, and expenses for each of the past three years. Another schedule shows the amount of real estate acquired during the twelve months. Mortgages and bonds are treated with the same particularity; the securities sold and bought during the year are itemized one by one with an equal fullness of detail; the balances carried in banks and trust companies are displayed from month to month throughout the year; the names, addresses, and services of every person, firm, or corporation in receipt of salaries or compensation of over \$5,000, and of all the officers and directors, with their emoluments, are likewise recorded; all salaries paid for agency supervision are set forth on a separate schedule; all legal expenses and all expenses in connection with legislative bodies and officers or departments of government during the year, together with a summary of the occasion of the expense, are similarly detailed; the annual rates of dividend declared in the year on all classes of policies, and the amounts set apart or provisionally ascertained or calculated or held awaiting apportionment on deferred-dividend policies for various terms and of various ages are also stated; and other schedules show the premiums, margins, and expenses

for the first year of insurance and for the company's total business. It is safe to say that, so far as the interests of the policy-holders can be safeguarded by enactments, and so far as publicity is a protection against irregularities, the New York insurance companies stand to-day on a better footing than any of their competitors either at home or abroad. There is nothing that throws a light of any value upon their condition and operations that they are not compelled to publish every year.

It is interesting to see how the "Big Three" have fared under the combined influence of reform from within and pressure from without; and perhaps the fairest and readiest method of ascertaining the extent and character of their progress is to compare the annual reports for 1905 with those for 1911. In the case of the Equitable, however, there has been within the past seven years a fundamental change of constitution that cannot be assessed in figures alone. It used to be a proprietary concern owned by a small stock company, the shareholders in which had alone the right to vote for directors; it has now secured the permission of the Legislature to convert itself into a purely mutual society. This is an important and auspicious development, as it puts an end to dangers that are sometimes apt in America to become extremely formidable—especially the danger of a raid or attack from some financial interest—and also because it dissolves connections that are liable to be at least as compromising as they are useful. The New York Equitable has done, perhaps, more than any other society in the world to popularize and liberalize life insurance; and its founder and for forty years its dominating personality, the late Mr. Henry B. Hyde, was in his way a man of real genius. But the arrangement that placed it under the control of a stock company began to disclose its perils and inconveniences soon after Mr. Hyde's death; efforts to mutualize the society were defeated by the courts; and though Mr. Ryan's acquisition of a controlling interest in the stock, his vesting of the voting power in a board of trustees composed of ex-President Cleveland and two highly reputable and conservative colleagues, and his subsequent disposal of his holdings to Mr. J. Pierpont Morgan at practically cost price, safeguarded the accumulated funds as nothing else could have done and were actions dictated by the best interests of the society, still it is all to the good that the whole



system of stock control, with its temptations, its anomalies, and its undesirable opportunities, should have been swept away and that the Equitable should now be managed through its policy-holders alone and should no longer be exposed to the difficulties of a divided interest.

But this, though the greatest, is not by any means the only reform that has been effected in the administration of the Equitable during the past few years. The heads of the opposing groups whose struggles precipitated the revelations of 1905 were impartially eliminated; an independent and extremely vigorous president was brought in from the outside in the person of the late Mr. Paul Morton; and under the direction of his energetic good sense, backed up by the universal confidence inspired throughout the United States by Mr. Cleveland's association with the Board of Trustees, a thoroughgoing policy of economy and reform was instituted and is still being pursued and extended by Mr. Morton's successor. A comparison between the position of the society at the end of 1905 and at the close of last year shows that the total assets have risen by all but \$100,000,000, the total surplus by over \$20,000,000, the bonuses paid to policy-holders by nearly \$6,000,000, the total amounts paid to policy-holders by \$15,000,000, the gross earnings from interest and rents by over \$5,000,000, and that the average gross rate of interest from investments has increased from 4.3 per cent. to 4.52 per cent., while the total expenses, in spite of the growing pressure of State and Federal taxation, have fallen by over \$3,000,000. Before 1906 an increasing volume of business was accompanied by diminishing returns to the policy-holders and excessive expenditure in salaries, commissions, and in obtaining new business. Since 1906 the volume of business has contracted, while the bonus has shown a yearly increase, economy has supplanted wastefulness, and the expenses for new business to-day are less than a quarter of the total insurance expenses. In 1911 the society issued fewer policies than in 1905, received some \$6,000,000 less in premium income and over \$11,000,000 less in total income, and wrote some \$13,000,000 less of new insurance. At the beginning of the present year its outstanding insurance was some \$52,000,000 less than at the end of 1905, and the number of policies on the society's books was proportionately lower. This decrease, while in some ways regrettable, is also a sign of

health and a token that the Equitable is now more concerned to furnish sound insurance at the lowest cost than to make a parade of size. Taken in conjunction (1) with the increase of over \$15,000,000 in the loans secured by mortgages and of nearly \$45,000,000 in the loans on the society's own policies, (2) with the greatly increased holdings of bonds which now by themselves exceed the value of all the securities held in 1905, (3) with the decrease in the amounts on deposit in banks and trust companies, and (4) with the large falling off in the agents' debit balances, it is a proof of more intimate relations between the policy-holders and the society and of the more thrifty and business-like spirit in which its affairs are now conducted.

In the case of the Mutual Life of New York, which has never had any shareholders and has always been a mutual concern, the particular constitutional problem which confronted the new management of the Equitable did not arise. Many changes of personnel, however, have taken place since 1905, and under the presidency of Mr. Charles A. Peabody, formerly a partner in a New York law firm of first-class standing and a man universally esteemed for his character and his level-headedness in affairs, the company has made a sincere and successful effort to get back to the position it occupied in the early eighties, when no American insurance company, I believe, stood higher, or deserved to stand higher, in both popular and expert opinion at home and abroad. Various circumstances combined for a time to retard the Mutual's recovery from the upheaval of 1905. For one thing the first election for the board of trustees held under the new laws was the signal for a determined and not over-scrupulous attempt, on the part of certain outside interests in America, to gain control of the company—an attempt that, while easily frustrated, attracted a wide publicity and kept all the policy-holders in a state of anxious apprehension. For another, the yellow press, among a thousand other baseless imbecilities, industriously spread the report that Mr. Peabody was the nominee of Mr. Rockefeller, or at least the representative of the Standard Oil group of financiers. It was a mere canard and died a natural death in less than a year of its unnatural birth; Mr. Peabody met it promptly, publicly, and squarely; not a single one of his acts as president has been, or, so far as I know, can be, pointed to as lending it even the shadow of confirmation; and when

I inquired into the matter last year among insurance, financial, and business circles in New York I found it to be not merely discredited, but forgotten. Nobody with any knowledge of easily accessible facts questions for a moment to-day that the new management of the Mutual has not only proved of signal advantage to the policy-holders, but is absolutely untrammelled by any illegitimate external influences or connections.

Of the other benefits that have accrued in the past few years a comparison between the annual statements of 1911 and 1905 yields some interesting evidence. One notes, for instance, as a sign of increasing confidence a large increase in the bonuses applied to purchase paid-up additions and annuities or left with the company to accumulate at interest. The bonuses paid out in cash to policy-holders last year amounted to over \$13,500,000, an increase of some \$12,000,000 over the figures of 1905; and all together the policy-holders in 1911 received over \$20,000,000 more than in 1905. The total amount derived from interest and rents is to-day some \$5,000,000 more than it was seven years ago, and the success of the new administration is amply shown by the fact that the total income has been brought back to the height it reached in 1905, while the admitted assets of the company are nearly \$120,000,000 more. A saving in expenses that amounts to well over \$5,000,000 has been effected in commissions, salaries, the inspection of risks, law costs, and advertising; and the stricter methods of book-keeping and the keener sense of responsibility that now obtain are visible in the rigorous scaling down of the \$5,000,000 that figured in the statement of 1905 under the item of “real-estate valuation adjustments.” The ledger assets of the company in the two years exhibit, indeed, some remarkable differences, the real estate held in 1911 being considerably less, while the mortgage loans, the book value of the bonds, and the loans to policy-holders have very greatly increased. Deposits on interest in trust companies and banks have been steadily reduced; the company owns \$13,000,000 worth of stocks less than it did; and it has abandoned the practice of issuing loans secured by the ordinary collateral of the money-market. Like the Equitable, the Mutual wrote fewer policies in 1911 than in 1905, representing a difference of roughly \$40,000,000 of insurance, and its outstanding insurance at the end of last year

was some \$85,000,000 below the figures of 1905. Skilful investment has enabled it to earn on its accumulated funds the remarkably high interest of four and three-fourths per cent.; and the conservative spirit that now animates the company was strikingly shown when the trustees decided not to avail themselves of the permission of the Legislature to write more than \$150,000,000 of new insurance in any one year, but to fix on that sum as the figure beyond which they would not go. Of late the Mutual has led the entire world of insurance in devising sound, liberal, and ingenious schemes for meeting the needs of policy-holders who have been compelled to discontinue the payment of their premiums and in formulating an attractive series of options open to beneficiaries on the death of the insured. No company, indeed, has done more to make the interests of its policy-holders the guiding principle of its whole policy and administration.

The New York Life Insurance Company has long been the biggest of the "Big Three." The most rapid period of its growth was between 1885 and 1905, when both its premium income and the amount of its outstanding insurance were multiplied nearly sevenfold. This stupendous increase in the volume of business was due partly to the company's initiative in issuing unrestricted policies and to its being the first concern in America to undertake the insurance of sub-standard lives on a large scale, and partly to its abolition of general agencies and the substitution therefor of the branch-office system. But both its size and its *modus operandi* exposed it to the full force of the legislation so hastily passed in 1906. No company, indeed, was harder or more ruthlessly hit by the restrictions suddenly placed on the amount of new business that might be procured. In 1905 it issued policies carrying nearly \$300,000,000 of insurance, or twice the amount which the Legislature in 1906 decreed might be written in any future year. The company was, therefore, obliged to dismember its entire organization. Between the end of 1906 and the end of 1909, 135, or considerably over half, of its branch offices had to be closed and nearly 3,000 agents left its service. Happily, it possessed, and still possesses, in Mr. Darwin P. Kingsley a president who both intellectually and by reason of his virile personality is the strongest individual force in American insurance to-day. A man of broad, sane, and clear-cut

views, combining the executive and the reflective faculties in a quite unusual degree, with a fervid faith in the social benefits of insurance, and endowed with a remarkable gift of expression by both pen and tongue, Mr. Kingsley has proved himself at once the ablest defender and the fairest and most formidable critic of the laws adopted by the Legislature after the Armstrong investigation. Without denying that the inquiry revealed “conditions which cannot be defended on any theory of business or on any theory of morals” and resulted in “enormous public benefits,” and while freely admitting that “many of the laws written at that time were good and should be retained,” Mr. Kingsley has consistently, and to a large extent successfully, protested against the legislative limitation on the amount of new business, the legislative restriction of the contingency reserve to five per cent. of the outstanding insurance, and the legislative regulation of the method—as apart from the amount—of expenditure in procuring new business. It was due almost wholly to his candid and persevering campaign, conducted all but single-handed, that the Legislature in 1910 modified the first of these three hampering provisions. The other two, however, still remain.

A comparison of the figures put forward in the exhaustive annual statements for 1911 and for 1905 reveals, in the case of the New York Life, results very similar in kind to those already discussed in connection with the Equitable and the Mutual. For all three companies the past six years have been a period of retrenchment and consolidation. All three have effected great changes in the personnel, the administrative methods, and, above all, in the spirit of their organization; all three have shown signs within the last two years of recovering from the tremendous shock they sustained in 1905 and 1906; and with all three a reduction in the volume of business has gone hand in hand with a still greater reduction in expenses and with rapidly increasing returns to their policy-holders. The New York Life, however, is the only one that has succeeded in recovering all the ground that was lost. It wrote, it is true, in 1911 only about half as many policies as in 1905 and for an amount nearly \$120,000,000 less; but it had at the end of last year a larger number of policies in force, representing a greater amount of insurance, than was the case at the end of 1905. What, however, is far more important is that its methods

have shown a simultaneous improvement in carefulness and economy, and that the returns to policy-holders under all heads, and the average rates of interest earned on bonds, mortgages, and real estate have steadily and year by year increased. In 1911, for instance, the company paid to its living policy-holders nearly \$30,000,000 and over \$25,000,000 in death claims—an excess of some \$15,000,000 over its disbursements under these two heads in 1905. Both its income from premiums and its total income at the end of last year were actually greater than at the end of 1905—a result due partly to more skilful investments and partly to a scrupulous reduction of expenses. For every \$5 which the New York Life received last year it paid out \$1.10 on death claims and \$1.40 to living policy-holders and set aside \$2.02 for reserve and dividends. Of the remaining 48 cents 20 went to agents, 14 to branch-office expenses, agency supervision, and medical expenses, 10 for administration and investment expenses, and 4 for taxes, licenses, and fees. That is a remarkable showing; it indicates how effectually the New York Life has sought economy through efficiency without losing its old capacity for militant enterprise.

To sum up. The tumult of 1905 called a six years' halt in the growth of the three companies that are by far the largest not only on the American continent but in the world. But each company has turned the interval to account by inaugurating a rigid policy of internal reform, has improved the character and yield of its investments, has greatly diminished its expenses, has revolutionized its administrative methods and arrangements, and has added year by year to the returns to its policy-holders. By forbidding investments in stocks and by prohibiting the issue of deferred-dividend policies the Legislature has forestalled the recurrence of conditions that in the old days were fertile in abuses and temptation. One-man power, as it existed in the time of the McCurdys, the Alexanders, the Hydes, and the McCalls, has been definitely demolished; committees to-day really supervise and directors really direct; and in all the transactions of the companies and in their daily routine there is visible a responsibility and carefulness and a sense of what it is that constitutes trusteeship that mark a complete departure from the loose procedure and looser ethics of the pre-1905 period. The greatest of all the reforms that have been effected in the conduct of the "Big

Three ” is one that cannot be tabulated or measured in dollars and cents; it is precisely this transformation of the standards, outlook, and ideals of those responsible for their management—a transformation, I should say, that is far from being confined to the insurance companies, and that, under the pressure of an increasingly vigilant and sensitive public opinion, is visible and operative in almost every department of American business and finance. Therein lies the best and most effective security against the possibility of such abuses as were disclosed in 1905 again creeping into the administration of the “Big Three.” The basis on which they are now established is sounder than it ever was before; the air has been cleared; the altered perspective and the improved and more economical methods have restored public confidence; and I see no reason why the future of American insurance should not be as useful and as striking as its past and considerably more wholesome. There remain, however, three special difficulties with which the American companies have still to contend. One is the increasing and reckless pressure of State and Federal taxation; another is the animus against large corporations which now seems to obtain all over the United States and which may before long assume a radically hostile and repressive form without much regard to the purposes for which any given corporation exists; the third is the amazing system which makes every insurance company play the part of shuttlecock to the whims and ignorances of nearly fifty States, each with its own Superintendent of Insurance and its own code of insurance legislation. To persuade the Supreme Court to bring insurance under the Interstate Commerce clause of the Constitution and to replace the chaotic rule of the States by the sane and orderly regulation of the central and national authority are reforms that seem to me, as an English policy-holder in an American company, eminently desirable. There are still, therefore, some rocks ahead of the “Big Three,” but neither in kind nor in effect are they to be compared with the troubles in which the companies had involved themselves seven years ago and from which they have at length safely, and as I believe permanently, emerged.

SYDNEY BROOKS.